

# **CLEAN WATER STATE REVOLVING FUND**

## **ANNUAL REPORT**

STATE OF OREGON  
DEPARTMENT OF ENVIRONMENTAL QUALITY

FOR THE FISCAL YEAR 2005:  
JULY 1, 2004 THROUGH JUNE 30, 2005

Prepared by:

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is presented to introduce the annual financial statements of the Oregon Clean Water State Revolving Fund (CWSRF) for the year ended June 30, 2005, and is intended to supplement these financial statements and provide the users of these statements with pertinent financial information about the program, in an easy to read format. The Department of Environmental Quality (DEQ) CWSRF loan program is responsible for the content of these financial statements. The MD&A provides financial statement readers with a summary of the information presented in the financial statements, discussion of pertinent policies, procedures and issues, and any additional information the CWSRF management feels is useful to the financial statement reader.

### The Clean Water State Revolving Fund Loan Program

The CWSRF provides low interest loans to public entities for projects that protect the quality of Oregon's waters. DEQ receives an annual grant from the U.S. Environmental Protection Agency (EPA). The 2005 grant was in the amount of \$12,172,941. This grant must be matched with State funds in the amount of 20 percent of the federal grant, or \$2,434,588 for 2005. These funds, combined with repayments on existing loans and investment interest earnings, totaled approximately \$55,000,000 for State fiscal year 2005. CWSRF loan interest rates can range from zero percent to the market rate, as authorized by State statute (ORS 468.440). Loan repayments are re-loaned to Oregon communities for completion of new projects, resulting in the "revolving" nature of the program. As of June 30, 2005 the Oregon CWSRF has loaned a total of \$528,019,075 to Oregon communities to help protect the quality of our water.

### Net Assets of the CWSRF

Net assets are required, by GASB 34, to be reported including the amount of capital assets owned by the entity, less any debt incurred to obtain those capital assets. The Oregon CWSRF has no capital assets and no related debt, consequently the amount of net assets reported includes no such amounts. The total amount of reported net assets as of June 30, 2005 is \$351,440,783. The June 30, 2004 financial statements reported net assets of \$345,982,759. The increased net assets is the result of repayments received from borrowers, new federal grant funds received and investment interest earnings on the fund.

Net assets as of June 30, 2005 include all amounts earned and retained in the program (similar to retained earnings in a private enterprise), all grant funds received from EPA, and all amounts paid into the CWSRF by the State of Oregon as grant match.

### Income During Fiscal Year 2005

Net operating income of the CWSRF for fiscal year 2005 was \$11,389,420. Operating income includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans, interest earned on balances held with the State Treasurer's Office, and fees collected from borrowers. Related expenses include payroll costs, amounts paid for services and supplies, and amounts paid for Indirect Cost, which is used by the DEQ to pay for centralized services, such as budgeting and accounting. Net operating income for fiscal year 2004 was \$10,056,427.

The program has incurred no losses as a result of borrower defaults. If borrowers experience financial hardship DEQ is willing to work to accommodate their needs, while ensuring the integrity of the CWSRF. Borrowers are required to review and adjust their sewer rates (or other revenues pledged as the source of loan repayment) periodically, to ensure their ability to pay all their operating costs and debt service.

Net operating income increases the amount of net assets in the program. Other increases to net assets include amounts actually received from the EPA grant, and amounts contributed as grant match by the State of Oregon. In 2005 the amount of federal grant funds received was \$16,128,447, and the amount of state matching funds received during the year was \$5,988,389.

The CWSRF loan program is allowed to use 4% of its federal grant funds to cover the cost of administering the program. In addition, the Oregon program charges its borrowers a loan fee to pay for program administrative costs. The total amount of loan fees collected during fiscal year 2005 was \$1,068,473. These amounts are not deposited into the loan fund, but are held outside the fund for payment of administrative costs.

### **Changes in Cash Position**

During fiscal year 2005 CWSRF cash decreased by \$5,357,281, as can be seen on the Statement of Cash Flows. Total loan repayments received from borrowers was \$22,237,381, including principal and interest. Loan fees collected totaled \$1,068,473. Interest credited to the CWSRF account with the State Treasurer's Office totaled \$1,853,881. Administrative expenses paid to employees, vendors, and for Indirect Cost totaled \$944,312. Cash received from EPA grant funds totaled \$16,128,447, and matching funds provided by the State of Oregon totaled \$5,988,389. Loan disbursements to borrowers totaled \$40,337,574. Funds paid by the CWSRF loan program for debt service on State match bonds was \$11,622,335. These amounts compose the change in cash balance and can be seen on the Statement of Cash Flows.

Even though cash decreased during FY 2005, the CWSRF loan program would like to see more of the available cash used to help improve water quality. During 2005 DEQ disbursed significantly more loan funds to borrowers than in 2004, and we are hopeful that the pace of our projects will increase in the near future. The projected amount of disbursements for fiscal year 2006 is approximately \$59,000,000, which would help to reduce the amount of cash held by the program.

### **Business Decisions Affecting the CWSRF**

Many states around the country increase the amount of immediately available loan funds by issuing revenue bonds, backed by the CWSRF program revenues, and loan those bond proceeds. This "leveraging" of the program provides more loan funds in the short term, however it places a strain on program resources in future years as the program must repay the bonds. Oregon has considered leveraging its program, however we have made the decision not to leverage at this time.

It is anticipated that during the state fiscal year 2006 we will consider making changes to certain Oregon Administrative Rules (OAR) that govern this program. We will consider making certain changes to the financial requirements of our loans as well as changes that we believe will make CWSRF funds more accessible and more flexible for our borrowers.

### **What's Ahead For 2006**

The last several years' capitalization grants from EPA have averaged approximately \$15,000,000 per year. The 2005 grant, however, was awarded in the amount of \$12,172,941. The 2006 proposed budget for EPA includes a further reduction in the amount of funding for this program. If appropriated by Congress at the proposed level, the amount of Oregon's fiscal year 2006 grant would be approximately \$10 Million, a reduction of 15%. As the level of federal funding decreases, so does the amount of CWSRF funds available to make loans, both in the current year and in future years.

### **A Change in State Matching Funds**

State matching funds continue to be raised through the sale of short term general obligation bonds, repaid from funds earned by the CWSRF.

### **Conclusion**

This MD&A is intended to provide a summary of the financial condition of the CWSRF loan program and should be read in conjunction with the remainder of this report. The financial statements, footnotes and supplemental information provided in this annual report provide a detailed analysis of the program's financial position and results of operations.

Questions about the Oregon CWSRF loan program should be directed to the Oregon DEQ, CWSRF Coordinator, 811 S.W. 6<sup>th</sup> Avenue, Portland OR 97204.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**Clean Water State Revolving Fund Loan Program**  
**Statement of Net Assets**  
**June 30, 2005**

<b>ASSETS</b>	<b>SRF</b>	<b>Administration</b>	<b>Total</b>
<b>Current</b>			
Cash and Cash Equivalents	81,882,351	5,227,382	<b>87,109,733</b>
Loan Interest Receivable	3,343,107	0	<b>3,343,107</b>
Investment Interest Receivable	0	0	<b>0</b>
Due From EPA	0	0	<b>0</b>
Loans Receivable	20,868,862	0	<b>20,868,862</b>
<b>Total Current Assets</b>	<b>106,094,320</b>	<b>5,227,382</b>	<b>111,321,702</b>
<b>Non-Current</b>			
Loans Receivable, net of Current Portion	256,969,663	0	<b>256,969,663</b>
Deferred Expenses	237,544	0	<b>237,544</b>
<b>Total Non-Current Assets</b>	<b>257,207,207</b>	<b>0</b>	<b>257,207,207</b>
<b>Total Assets</b>	<b>363,301,527</b>	<b>5,227,382</b>	<b>368,528,909</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts Payable	0	3,715	<b>3,715</b>
Payroll Payable	0	47,867	<b>47,867</b>
Construction Costs Payable	443,371	0	<b>443,371</b>
Due To Other Funds	0	9,243	<b>9,243</b>
Bond Interest Payable	228,930	0	<b>228,930</b>
Bonds Payable	850,000	0	<b>850,000</b>
<b>Total Current Liabilities</b>	<b>1,522,301</b>	<b>60,825</b>	<b>1,583,126</b>
<b>Non-Current Liabilities</b>			
Bonds Payable	15,505,000	0	<b>15,505,000</b>
<b>Total Non-Current</b>	<b>15,505,000</b>	<b>0</b>	<b>15,505,000</b>
<b>Total Liabilities</b>	<b>17,027,301</b>	<b>60,825</b>	<b>17,088,126</b>
<b>Net Assets</b>			
Restricted	346,274,226	5,166,557	<b>351,440,783</b>
<b>Total Liabilities and Net Assets</b>	<b>363,301,527</b>	<b>5,227,382</b>	<b>368,528,909</b>

The accompanying notes are an integral part of these financial statements.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**Clean Water State Revolving Fund Loan Program**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2005**

	SRF	Administration	Total
<b>Operating Revenues</b>			
Loan Interest	9,233,418	0	9,233,418
Investment Earnings	1,917,031	109,544	2,026,575
Loan Fees	0	1,068,473	1,068,473
Total Operating Revenues	11,150,449	1,178,017	12,328,466
<b>Operating Expenses</b>			
Bond interest	1,356,265	0	1,356,265
Other Bond Costs	91,619	0	91,619
Salaries and Benefits	0	701,025	701,025
Services and Supplies	0	103,424	103,424
Indirect Costs	0	134,597	134,597
Total Operating Expenses	1,447,884	939,047	2,386,931
<b>Operating Income</b>	9,702,565	238,971	9,941,535
<b>Nonoperating Revenues (Expenses)</b>			0
EPA Grants Received	16,048,936	0	16,048,936
Transfers In (Out)	-485,483	485,483	0
Total Nonoperating Revenues (Expenses)	15,563,453	485,483	16,048,936
<b>Change in Net Assets</b>	25,266,018	724,454	25,990,472
<b>Net Assets, Beginning of Year</b>	341,540,656	4,442,104	345,982,760
<b>Prior Period Adjustment</b>			
Cumulative effect of bond activity since July 1, 2003	(20,532,447)		(20,532,447)
<b>Net Assets, Beginning of Year, Adjusted</b>	321,008,209		321,008,209
<b>Net Assets, End of Year</b>	346,274,226	5,166,557	351,440,783

The accompanying notes are an integral part of these financial statements.

**OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY**  
**Clean Water State Revolving Fund Loan Program**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2005**

	<b>2005</b>
<b>Cash Flows From Operating Activities:</b>	
Cash received from loan interest repayments	9,066,091
Cash received from loan principal repayments	13,171,290
Cash disbursed to borrowers	(40,238,856)
Cash received from loan fees	1,068,473
Interest payments on match bonds	(1,127,335)
Cash received from Treasury interest credits	2,026,575
Cash payments to:	
Vendors	(108,895)
Employees	(711,066)
Indirect Cost	(125,394)
<b>Net Cash Provided by Operating Activities</b>	<b>(16,979,117)</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>0</b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Funds Received From EPA	16,128,447
Proceeds from sale of bonds	5,988,389
Principal payments on match bonds	(10,495,000)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>11,621,836</b>
<b>Cash Flows From Investing Activities</b>	
<b>Net Cash Used in Investing Activities</b>	<b>0</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(5,357,281)</b>
Cash and Cash Equivalents, Beginning of Year	92,467,014
<b>Cash and Cash Equivalents, End of Year</b>	<b>87,109,733</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
<b>Operating Income</b>	<b>9,941,535</b>
Amortization of Bond Costs	91,619
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase/Decrease in loan interest receivable	(167,327)
Increase/Decrease in loans receivable	(27,457,748)
Increase/Decrease in construction costs payable	390,182
Increase/Decrease in accounts payable	(5,477)
Increase/Decrease in payroll payable	(11,074)
Increase/Decrease in amount due to other funds	10,243
Increase/Decrease in Bond Interest Payable	228,930
Total adjustments:	(27,012,271)
<b>Net cash provided by operating activities</b>	<b>(16,979,117)</b>



## NOTES TO FINANCIAL STATEMENTS

### 1. **Organization of the Fund**

The Oregon Clean Water State Revolving Fund (the Fund) was established pursuant to Oregon Revised Statutes 468.423 – 468.440. The purpose of the SRF is to provide low interest loans to local governments for constructing wastewater treatment facilities, implementing nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 20 years, and all repayments, including interest and principal, must be credited to the State Revolving Fund.

The SRF program is administered by the State of Oregon's Department of Environmental Quality (ODEQ). The SRF program consists of several funds to record loan and related activity and an administrative fund that collects loan fees and pays the operating costs of the program, and are collectively referred to as the Fund. ODEQ's primary responsibilities for the SRF include obtaining capitalization grants from EPA, soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The ODEQ oversees administration of the Fund and charges the Fund for staff time spent on SRF activities. The Fund pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund. The rate of indirect cost is negotiated annually with the EPA. Employees charging time to the Fund are covered by the benefits available to Oregon State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund financial statements, footnotes, and required supplemental information are presented for the U.S. Environmental Protection Agency. The Fund is included in the Oregon general purpose financial statements as a special revenue fund which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

### 2. **Summary of Significant Accounting Policies**

#### ***Basis of Accounting***

The financial statements for the Fund are presented as an enterprise fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on

the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the Fund are included on the balance sheet. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

### ***Cash and Cash Equivalents***

All monies of the Fund are deposited with the Oregon Treasurer's Office which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash. Investment interest earnings on these deposits are received by the Fund on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as further discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

### ***Loans Receivable***

The loans are funded by Federal capitalization grants, State matching funds, general obligation and revenue bonds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time, a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the final disbursement, repayment begins with an interest only payment. Full repayment must be received by the Fund within 20 years. There is no provision for uncollectible accounts, as all repayments are current, and program management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

## **3. Cash and Cash Equivalents**

All cash in the Fund is deposited with the State Treasurer who is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Market Value</u>
Not subject to categorization:		
Deposited with State Treasurer's Office	<u>\$ 87,109,733</u>	<u>\$ 87,109,733</u>

#### 4. **Loans Receivable**

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate. Interest rates vary depending on the length of the loan, the type of loan, and program rules. Prior to 1995 rates were either zero percent or three percent, depending on the length of the repayment period. Between 1995 and 2003 the interest rate for facilities planning was one-half the bond rate, and the interest rate for design and construction was the greater of two-thirds the bond rate or the bond rate minus two percent. In May of 2003 interest rates were modified to be based on loan terms. Rates range from 25% of the bond rate for 5 year loans to 65% of the bond rate for 20 year loans. Recipients make semiannual or, in some cases, annual payments, generally starting six months after project completion. Details of loans receivable as of June 30, 2005 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Outstanding Balance</u>
Completed projects	\$359,077,807	\$ 0	\$237,127,067
Projects in progress	<u>168,941,268</u>	<u>129,491,762</u>	<u>40,711,458</u>
Totals	<u>528,019,075</u>	<u>129,491,762</u>	<u>277,838,525</u>
Less amounts due within one year			20,868,862
Loans receivable, June 30, 2005			\$256,969,663

Loans mature at various intervals through June 1, 2026. The scheduled minimum principal repayments in future years are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2006	\$ 20,868,862
2007	16,397,183
2008	16,306,544
2009	16,839,853
2010	17,175,556
Thereafter	<u>190,250,527</u>
Total	<u>\$277,838,525</u>

***Loans to Major Local Agencies:***

As of June 30, 2005, the Fund has made loans to 14 local governments that totaled \$10,000,000 or more, and in the aggregate, exceeded \$340,000,000. The outstanding balances of these loans represent approximately 65 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding</u>	<u>Status *</u>
City of Albany	\$ 49,286,394	1,127,562	New/Repay.
City of Ashland	23,920,068	\$21,659,513	Repayment
City of Brookings	13,100,000	12,032,716	Repayment
City of Corvallis	21,963,693	18,406,188	Repayment
City of Dallas	14,880,000	12,078,316	Repayment
City of Eugene	25,592,592	2,069,417	Repayment
City of Florence	12,279,155	10,424,646	Repayment
City of Gresham	42,359,498	23,716,463	Repayment
City of Newport	20,228,883	18,626,921	Repayment
City of Ontario	13,971,689	8,278,581	Repayment
City of Portland	33,791,673	6,162,969	Paid/Active
City of Prineville	18,267,286	12,639,663	New/Repay.
City of Redmond	21,138,406	5,383,352	Repay/Active
City of Woodburn	<u>30,349,671</u>	<u>25,689,276</u>	Repayment
TOTAL	<u>\$ 341,129,008</u>	<u>\$ 178,295,584</u>	

**5. Fixed Assets**

The only fixed assets are equipment. During fiscal year 2005 there were no purchases of equipment, and the existing CWSRF loan program capital assets have all been fully depreciated.

**6. Bonds Payable**

In July 2003 EPA allowed the SRF to use Fund assets to pay the principal and interest on \$23,765,000 of general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The details of such bonds at June 30, 2005 are as follows:

## State Match Bonds:

	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
Series 1995B, General Obligation Pollution Control Bonds Interest of 4.7% to 5.25% due semi- Annually, principal due annually to November 1, 2015.	\$3,325,000	\$ 230,000	\$3,095,000
Series 1997A, General Obligation Pollution Control Bonds Interest of 3.8% to 5.0% due semi- Annually, principal due annually to November 1, 2017.	\$6,035,000	\$ 335,000	\$5,700,000
Series 2000A, General Obligation Pollution Control Bonds Interest of 4.15% to 5.50% due semi- Annually, principal due annually to August 1, 2020.	<u>\$6,995,000</u>	<u>\$ 285,000</u>	<u>\$6,710,000</u>
Totals	<u>\$16,355,000</u>	<u>\$ 850,000</u>	<u>\$15,505,000</u>

**7. Federal Grants and State Match**

The Fund is capitalized by Capitalization Grants for SRF from the EPA. These grants have been awarded annually, beginning in federal fiscal year 1989. The State of Oregon must also contribute an amount equal to 20 percent of the federal capitalization amount, as discussed below. As of June 30, 2005, EPA has awarded capitalization grants in the amount of \$263,489,612 to the State of Oregon, of which \$251,316,671 has been drawn for loans and administrative expenses. The following summarizes the capitalization grant awards, amounts drawn on each grant as of the balance sheet date, and balances available for loans and administrative costs:

	Grant Amount	Total Draws As of June 30, 2004	2005 Draws	Total Draws as of June 30, 2005	Grant Funds Available June 30, 2005
1989-2002	\$ 221,383,526	\$ 221,383,526	\$ 0	\$ 221,383,526	\$ 0
2003	14,962,068	13,804,698	1,157,370	14,962,068	0
2004	14,971,077	0	14,971,077	14,971,077	0
2005	12,172,941	0	0	0	12,172,941
Totals	<u>\$ 263,489,612</u>	<u>\$ 235,188,224</u>	<u>\$16,128,447</u>	<u>\$ 251,316,671</u>	<u>\$ 12,172,941</u>

Prior to 1993 Oregon's matching contribution was provided through appropriation of State general fund resources. Beginning in 1993 state matching funds were provided by issuing General Obligation Pollution Control Bonds. Between 1993 and 2003 Oregon issued \$29,980,000 in state match bonds and transferred the proceeds plus interest to the SRF as state match. In July 2003 EPA allowed the SRF to assume \$23,765,000 of previously issued bonds, and principal and interest payments on those bonds to be paid from interest earnings of the SRF. Activity on bonds assumed by the SRF since July 2003 is as follows:

Bond Issue	Balance Transferred July 1, 2003	Principal Paid 2004	Principal Paid 2005	Balance June 30, 2005
1993A	1,865,000	1,865,000		0
1994A	3,965,000	280,000	3,685,000	0
1995B	3,755,000	210,000	220,000	3,325,000
1997A	6,660,000	305,000	320,000	6,035,000
2000A	7,520,000	255,000	270,000	6,995,000
	<u>\$23,765,000</u>	<u>\$ 2,915,000</u>	<u>\$ 4,495,000</u>	<u>\$ 16,355,000</u>

Interest paid on bonds transferred to the SRF was approximately \$745,000 in 2004 and \$897,000 in 2005.

Since July 2003 Oregon has issued bonds to provide state match, with all principal and interest on such bonds being paid by the SRF. The details of such bonds are as follows:

Bond Issue	Issued	Principal Paid 2004	Principal Paid 2005	Balance June 30, 2005
2003C	\$ 3,000,000	\$ 3,000,000		\$ -
2004A	6,000,000		6,000,000	0
	<u>\$ 9,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ -</u>

The effect on the state matching funds previously contributed by the State are as follows:

	June 30, 2005
Oregon State Matching Contribution	\$ 47,277,572
Reduce state match for transfers from bond fund	<u>(26,429,045)</u>
State Match, Adjusted	\$ <u>20,848,527</u>

## 8. Loan Fees

In order to support administration and project management costs, loan fees are assessed on all loans originating after 1992. A loan origination fee of 1.5 percent is assessed at the beginning of the repayment period, and an annual fee of 0.5 percent is assessed on the outstanding balance. The fees are deposited to an account outside the Fund and will be used only for administrative and project management costs.

In May 2003 the Environmental Quality Commission (EQC) approved changes to the program's administrative rules. One of the approved changes is the elimination of the 1.5% loan processing fee that has been charged on all loans. This fee is no longer charged. Also, fees on planning loans will not be assessed, in order to encourage Oregon communities to complete more planning.

## **9. Contingencies, Related Parties, and Subsequent Events**

### ***Contingencies***

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. The State maintains insurance for all risks of loss which is included in the indirect costs allocated to the Fund.

In previous years the State of Oregon has been named in suits against CWSRF borrowers, by citizens either claiming unlawful sewer rate increases or unlawful debt. These suits have been decided in favor of our borrowers and the State of Oregon, and we are unaware of any such contingencies in existence at this time.

### ***Related Parties***

There are no related party transactions with or related amounts receivable from management of the Fund.

## **SUPPLEMENTAL INFORMATION**

The following schedules provide additional information that may be useful to the financial statement reader. These schedules provide data about future program activity, loan security provisions, and certain U.S. Environmental Protection Agency requirements.

The table below shows the capitalization funding of the Clean Water State Revolving Fund since its inception through June 2005. It shows federal capitalization grants awarded by EPA and state matching funds, as well as how funds are allocated between loans and fund administration.

## CWSRF CAPITALIZATION

<b>Federal Fiscal Year</b>	<b>Capitalization Grant Award</b>	<b>20% State Match</b>	<b>Administrative Allowance (4% of Grant)</b>	<b>Net Available for Loans</b>
1989	10,655,073	2,131,015	(426,203)	12,359,885
1990	11,021,373	2,204,275	(440,855)	12,784,793
1991	23,183,622	4,636,724	(927,345)	26,893,001
1992	21,949,191	4,389,838	(877,968)	25,461,061
1993	21,712,581	4,342,516	(868,503)	25,186,594
1994	13,472,415	2,694,483	(538,897)	15,628,001
1995	13,914,054	2,782,811	(556,562)	16,140,303
1996	22,791,123	4,558,224	(911,645)	26,437,702
1997	7,011,959	1,402,392	(280,478)	8,133,873
1998	15,211,548	3,042,310	(608,462)	17,645,396
1999	15,212,835	3,042,568	(608,513)	17,646,890
2000	15,161,256	3,032,251	(606,450)	17,587,057
2001	15,026,517	3,005,303	(601,061)	17,430,759
2002	15,059,979	3,011,996	(602,399)	17,469,576
2003	14,962,068	2,992,414	(598,483)	17,355,999
2004	14,971,077	2,994,215	(598,843)	17,366,449
2005	12,172,941	2,434,588	(486,918)	14,120,611
<b>Totals</b>	<b>\$263,489,612</b>	<b>\$52,697,923</b>	<b>(\$10,539,585)</b>	<b>\$305,647,950</b>



This table documents the planned schedules for active loans, and also lists the loan terms for each of these loans. This table provides an estimate of future demand on the State Revolving Fund.

Borrower	Loan Number	Date Loan Signed	Start Date	Completion Date	Loan Amount	Term (Yrs)	Interest Rate	One-Time Fee	Annual Fee
Albany	R10511	6/26/2003	7/1/2006	7/1/2009	35,183,559	20	3.14%	0.0%	0.5%
Albany	R10512	6/9/2005	7/1/2006	7/1/2009	8,900,776	20	2.90%	0.0%	0.5%
Arch Cape	R11430	12/9/2002	1/1/2003	8/1/2003	70,000	5	2.36%	0.0%	0.5%
Arlington	R11491	5/11/2005	5/01/05E	12/01/05E	887,200	2	1.11%	0.0%	0.0%
Astoria	R11790	11/12/2002	12/1/02E	12/1/05E	2,760,000	20	3.14%	0.0%	0.5%
Astoria	R11791	12/17/2004	12/04E	12/07E	2,300,000	20	3.06%	0.0%	0.5%
Burns	R19400	9/25/1997	2/1/1999	11/06E	2,350,000	20	3.69%	0.0%	0.5%
Charleston S.D.	R21920	12/17/2004	12/04E	6/06E	425,750	20	3.06%	0.0%	0.5%
Charleston S.D.	R21921	3/17/2005	3/05E	9/05E	100,150	20	2.92%	0.0%	0.5%
Coburg	R23040	3/20/2002	2/15/02E	9/30/06E	450,000	5	2.63%	0.0%	0.5%
Coburg	R23041	3/20/2002	1/8/03E	10/07E	3,500,000	20	3.51%	0.0%	0.5%
Coquille	R24292	7/14/2003	7/03E	6/06E	195,000	5	1.12%	0.0%	0.0%
Cottage Grove	R24573	1/21/2004	4/04E	1/06E	9,755,000	20	3.10%	0.0%	0.5%
Creswell	R25140	7/9/2003	7/03E	9/05E	3,370,000	20	3.14%	0.0%	0.5%
Creswell	R25141	3/4/2004	3/04E	9/05E	1,935,000	5	1.19%	0.0%	0.0%
Dufur	R29521	3/12/2002	6/01/02E	10/05E	450,000	20	3.51%	0.0%	0.5%
East Fork I.D.	R30141	1/5/2005	1/05E	3/08E	1,500,000	20	2.92%	0.0%	0.5%
Farmers I.D.	R32240	3/18/2004	3/04E	7/05E	3,000,000	5	1.19%	0.0%	0.5%
Farmers I.D.	R32241	7/27/2004	7/27/2004	6/06E	3,000,000	20	3.23%	0.0%	0.5%
Harbor S.D.	R41420	4/18/2005	4/05E	11/05E	500,000	20	2.90%	0.0%	0.5%
Hines	R44631	11/27/2002	1/03E	12/05E	1,559,349	20	3.14%	0.0%	0.5%
Hubbard	R46610	5/10/2004	7/04E	5/06E	1,200,000	20	3.10%	0.0%	0.5%
Lakeside	R54436	2/24/2005	2/05E	6/06E	2,111,150	2	1.18%	0.0%	0.0%
Maywood Park	R63960	5/1/2002	7/01/02E	12/05E	30,000	5	2.66%	0.0%	0.5%
Miles Crossing	R65230	2/9/2001	6/22/2001	12/05E	360,000	5	2.82%	0.0%	0.5%
Modoc Point	R65950	4/6/2005	4/05E	11/05E	32,000	20	2.90%	0.0%	0.5%
Myrtle Creek	R67980	6/29/2001	7/1/2001	1/06E	8,797,397	20	3.43%	0.0%	0.5%
Portland	R74163	9/19/2003	9/03E	6/13E	2,326,248	20	1.00%	0.0%	0.5%
Portland	R74164	9/19/2003	9/03E	6/11E	6,404,380	20	1.00%	0.0%	0.5%
Portland	R74165	9/19/2003	9/03E	12/05E	3,652,129	20	1.00%	0.0%	0.5%
Portland	R74166	6/14/2004	6/04E	6/06E	400,000	5	1.13%	0.0%	0.5%
Portland	R74167	12/1/2004	12/04E	11/06E	4,272,068	20	1.00%	0.0%	0.5%
Portland	R74168	12/1/2004	12/04E	11/06E	1,482,454	20	1.00%	0.0%	0.5%
Portland	R74169	12/1/2004	12/04E	12/08E	1,149,012	20	1.00%	0.0%	0.5%
Powers	R74351	3/30/2004	4/04E	5/06E	550,000	20	3.10%	0.0%	0.5%
Prairie City	R74420	9/26/2000	10/1/2000E	12/05E	1,045,000	20	3.85%	1.5%	0.5%
Prineville	R74682	6/18/2004	6/18/2004	9/06E	10,858,360	20	2.94%	0.0%	0.5%
Rainier	R75261	4/21/2004	4/04E	12/05E	230,000	5	1.13%	0.0%	0.0%
Redmond	R76072	6/30/2004	11/04E	11/07E	10,183,559	20	2.94%	0.0%	0.5%
Reedsport	R76210	12/17/2004	4/05E	1/08E	6,800,000	20	3.06%	0.0%	0.5%
Rockaway Beach	R78281	6/30/2004	7/04E	12/05E	2,500,000	20	2.94%	0.0%	0.5%
St. Helens	R80161	8/19/2003	8/2003E	12/05E	2,053,000	15	2.69%	0.0%	0.5%
Shady Cove	R83120	2/4/2005	2/2005E	12/05E	1,000,000	20	2.92%	0.0%	0.5%
Spray	R86740	9/13/2004	9/04E	7/06E	610,000	2	1.24%	0.0%	0.0%
Stayton	R87590	3/14/2005	3/05E	10/06E	4,382,000	20	2.92%	0.0%	0.5%
Sweet Home	R89750	12/23/2002	6/1/03E	9/05E	4,000,000	20	3.14%	0.0%	0.5%
Sweet Home	R89751	4/1/2005	4/05E	4/07E	2,000,000	20	2.92%	0.0%	0.5%
Tillamook	R91563	4/11/2003	4/11/03E	12/05E	500,000	20	3.19%	0.0%	0.5%
Tillamook	R91565	6/3/2005	6/05E	6/06E	300,000	5	1.11%	0.0%	0.0%
Umatilla County	R93055	3/21/2005	3/05E	11/05E	336,000	20	2.47%	0.0%	0.5%
Vale	R93223	6/2/2005	6/05E	10/06E	2,710,356	5	1.10%	0.0%	0.0%
Vernonia	R93641	6/2/2005	6/05E	12/05E	264,360	5	1.11%	0.0%	0.0%
Waldport	R94344	4/21/2003	4/21/03E	12/05E	1,221,700	2	3.23%	0.0%	0.0%
Warrenton	R94942	7/23/2003	7/03E	3/06E	1,200,000	20	2.91%	0.0%	0.5%
Warrenton	R94943	6/28/2004	6/03E	12/07E	7,500,000	20	2.94%	0.0%	0.5%
Wedderburn S.D.	R95510	11/22/1999	7/99E	9/05E	103,424	5	2.86%	0.0%	0.5%
Yachats	R99100	6/17/2005	6/05E	2/08E	5,900,000	20	2.90%	0.0%	0.5%

**Total****\$180,656,381**

(1) Dates followed by an "E" are estimates.

The CWSRF loan program accepts different security for repayment of loans, including bonds, sewer revenues and other sources of revenue. We also accept different security positions, including parity and subordinate positions, as appropriate. The table below offers a summary of our security provisions, as of June 30, 2005 (these amounts are the outstanding principal balance receivable plus accrued interest):

G.O. Bonds	\$ 3,558,452 (1.3% of total)
Special Assessment Bonds	136,800 (0.1% of total)
REVENUE-SECURED LOANS:	
First Lien	170,369,716 (60.7% of total)
Parity with Other Loans	22,912,828 (8.2% of total)
Subordinate to Other Loans	19,020,821 (6.8% of total)
Parity with Revenue Bonds	25,476,019 (9.1% of total)
Subordinate to Revenue Bonds	<u>39,263,593</u> (14.0% of total)

TOTAL: \$280,738,229

Following is a summary of loan activity during fiscal year 2005 and program administrative expense, demonstrating compliance with the federal requirement (at 40 CFR §35.3135(c)) that we sign binding

commitments in an amount greater than 120% of all federal grant payments within one year of those payments, on a cumulative basis.

Total loans at 6/30/2004	\$475,773,125
Total Admin. Exp. (6/30/04)	9,048,330
Total Commitments:	484,821,455
Federal Payments (thru 2003)	221,383,526

#### FISCAL YEAR 2005 ACTIVITY

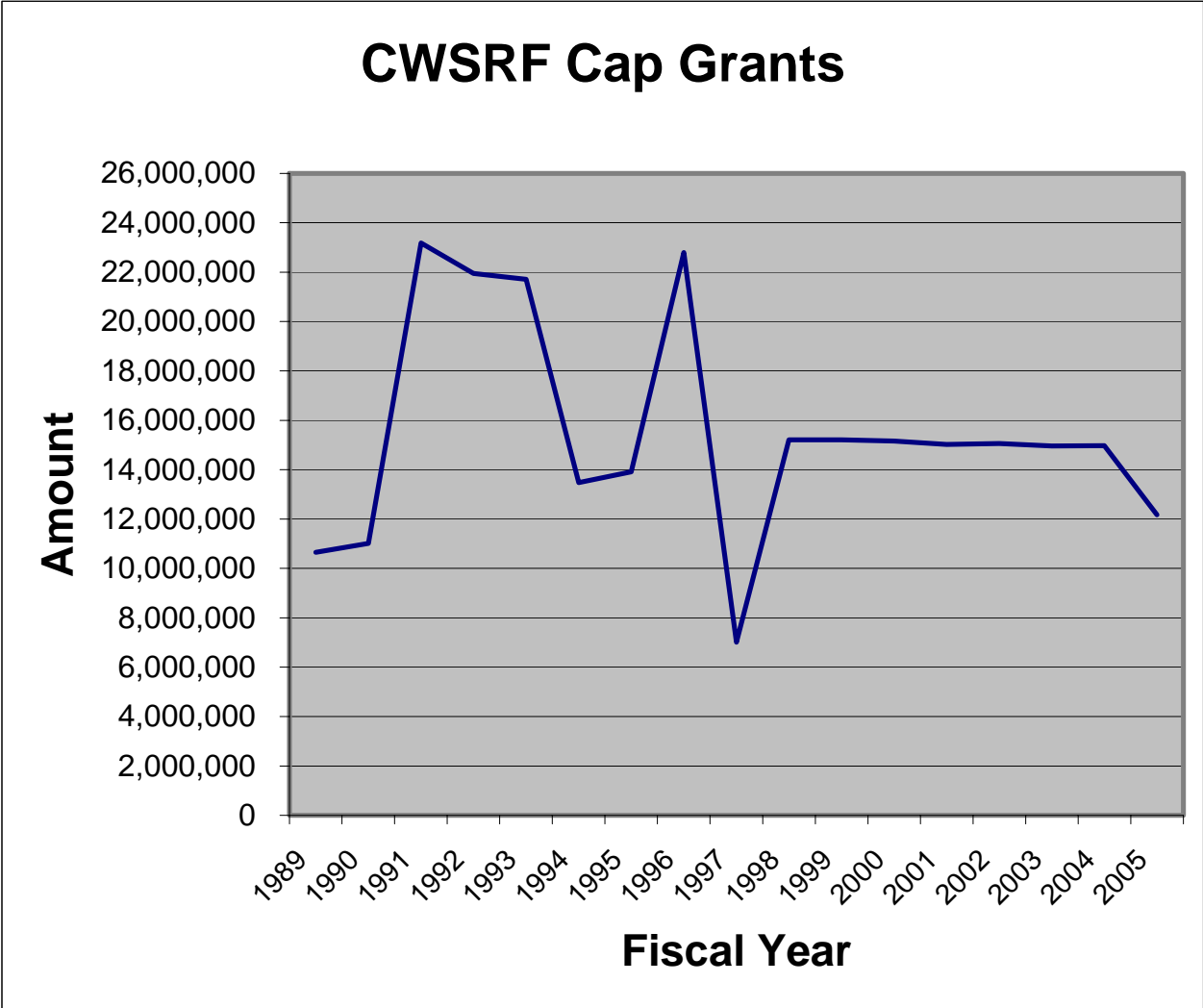
Loans	52,245,950
Admin. Expense	944,312
Federal Payments (prior yr.)	14,962,068
Cumulative Total Loans:	\$528,019,075
Cum. Total Admin. Expense:	9,992,641
Total Commitments:	538,011,716
Cum. Total Fed. Payments	236,345,594

Commitments as a percentage of federal payments (cumulative): 228%

The following schedule shows the availability of federal funds according to the grant payment schedules, the actual transfer of state matching funds, and compliance with the requirement (at 40 CFR §35.3135(b)) that the cumulative state match transfers equal at least 20% of the cumulative federal grant payments available. This table has been corrected as of June 30, 2005, to accurately reflect the actual match payments made by the Oregon CWSRF loan program.

Federal Grant Payments thru 2004	\$236,345,594
State Match Payments thru 2004	48,660,403
Match as a percentage of fed. Grants:	20.59%
Fiscal Year 2005 Activity	
Grant Payments	14,971,077
Match Payments	5,988,389
Cumulative Totals:	
Grant Payments	\$251,316,671
Match Payments	54,648,792
Match payments as a percent of federal Payments:	21.74%

The following graph illustrates the federal capitalization grants awarded to the CWSRF loan program since its inception:



The following schedule summarizes the FY 2005 disbursements, administrative expense and federal grant draws. It also documents the pace of the program, by indicating the ratio of federal funds drawn to total funds utilized over the life of the program.

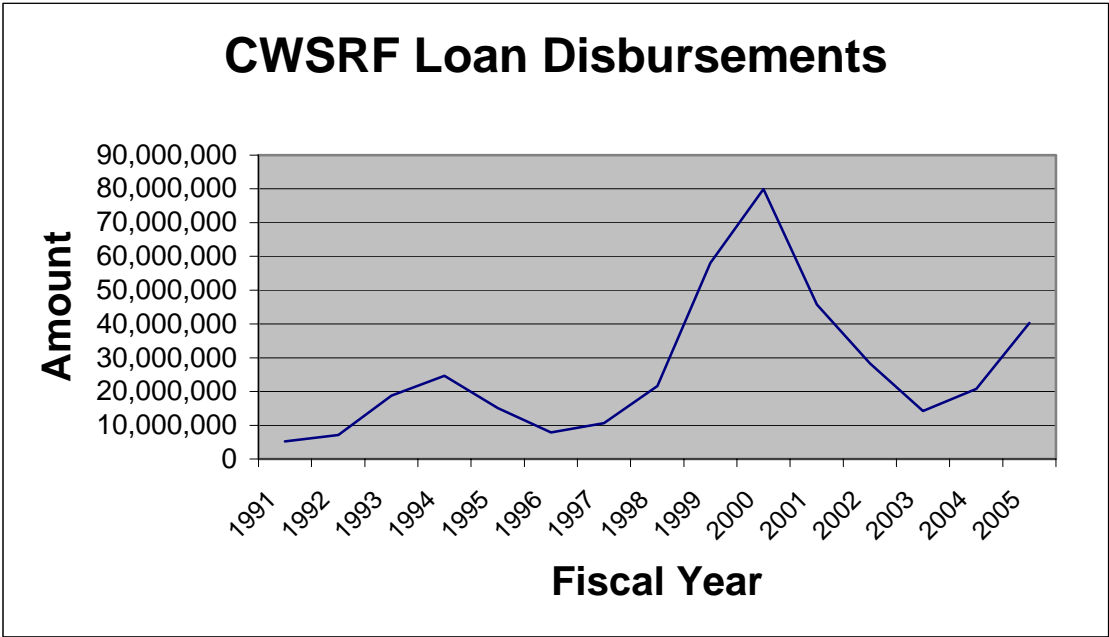
**TOTALS AT 6/30/2004**

Total loan disbursements	\$358,189,739
Total administrative expense	9,048,330
Total funds utilization:	367,238,069
Total federal grant draws	235,188,224
Grant draws as a percent of total funds utilization:	64.0%

**Fiscal Year 2005 Activity**

Loan disbursements	40,337,574
Admin. Expense	944,312
Federal grant draws	16,128,447
Cumulative loan disbursements	\$398,527,313
Cumulative admin. expense	9,992,642
Cumulative total funds utilization	408,519,955
Cumulative federal grant draws	251,316,671
Grant draws as a percent of total funds utilization:	61.5%

The graph below illustrates the amount of loan disbursements processed during each fiscal year:

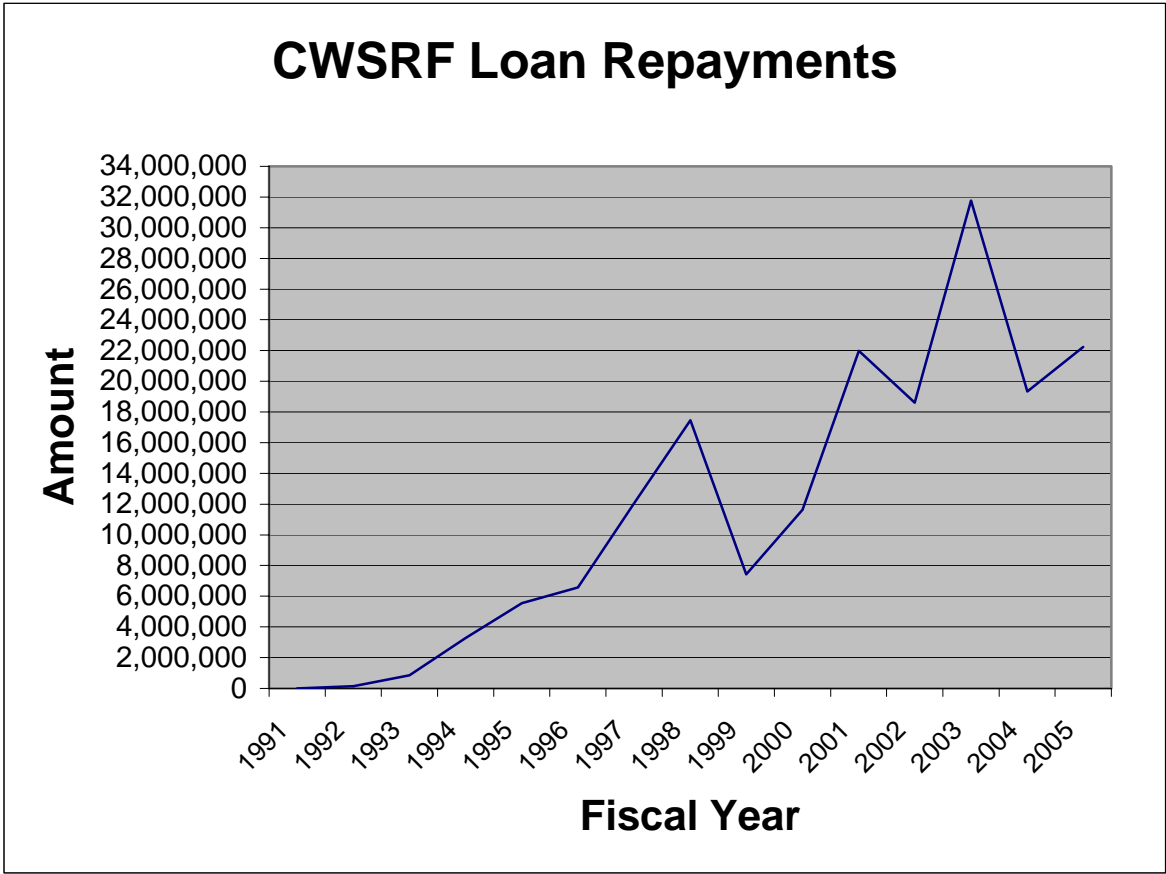




The EPA rules define "refinancing" to include construction costs which have been incurred prior to the signing of the loan agreements. A cumulative exclusion amount of \$2,000,000 per year is available to offset these situations. When the cumulative exclusion is exceeded, payment of the "refinanced" costs will be made ratably over eight quarters. No loans were signed during fiscal year 2005 that financed construction costs that were already incurred.

	<b>Refinancing Rule Exclusion</b>
Exclusion Available as of 6/30/04	\$25,080,767
Plus FY 2005 Exclusion	2,000,000
Less FY 2005 Exclusion Used	0
Exclusion Available as of 6/30/05	\$27,080,767

The graph below illustrates the loan repayments (principal and interest) that the CWSRF loan program has received since its inception.



The following schedule presents the Oregon CWSRF loan program success by documenting the calculation of six financial indicators as developed by the EPA/States Workgroup. These indicators attempt to show Oregon's progress toward funding as many water quality beneficial projects as possible while maintaining the program's equity in perpetuity.

**ACTIVITY THRU JUNE 2005:**

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**Indicator #1: Return on Federal Investment**

Shows the amount invested in water quality beneficial projects for each federal dollar invested (total loan disbursements/total federal draws (for loans and administrative costs))

(A) Total Loan Disbursements:	398,527,313
(B) Federal draws for loans:	242,453,051
(C) Federal draws for Admin:	8,863,620
(A)/(B+C)	<b>158.58%</b>

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**Indicator #2: Percentage of Closed (executed) Loans to Funds Available For Loans**

Shows the amount of signed loan agreements compared to the amount of funds available for loans

(A) Amount of signed loan agreements:	528,019,075
(B) Cumulative Cap Grants:	263,489,612
(C) Cumulative State Match:	50,271,787
(D) Loan Principal Repaid:	122,052,482
(E) Operating Profit	
(1) Interest from loans:	58,077,326
(2) Interest from investments:	21,371,174
(3) Administrative Expense:	9,992,641
(F) Match Bond Payments from the SRF	18,076,523
(A)/(B+C+D+E1+E2-E3-F)	<b>108.38%</b>

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**Indicator #3: Percentage of Funds Disbursed to Closed Loans**

Shows the amount of funds actually disbursed compared to the amount of signed loan agreements

(A) Total Loan Disbursements:	398,527,313
(B) Total Signed Loan Agreements:	528,019,075
A/B	<b>75.48%</b>

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**Indicator #4: Benefits of Leveraging**

DOES NOT APPLY TO OREGON PROGRAM

**Indicator #5: Perpetuity of Fund**

Demonstrates whether the program is maintaining its contributed capital

(A) Interest on Loans	58,077,326
(B) Interest on Investments	21,371,174
(C) Fed. Admin. Allowance	10,539,584
(D) Actual Admin. Costs	9,992,641
A+B+C-D	<b>79,995,443</b>

A positive result indicates the Program is maintaining its capital base

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**Indicator #6: Estimated Subsidy - Current Fiscal Year**

An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate

(A) Estimated Market Int. Rate:	4.50%
(B) Average CWSRF Loan Rate:	2.53%
A-B	1.97%
(A-B)/A	<b>43.8%</b>

## BINDING COMMITMENTS AND FUNDS AVAILABLE

EPA requires that the program execute binding commitments at least equal to the amount of funds available in the program, within one year of that availability. This schedule calculates the amount of funds available as of June 30, 2004, and compares that amount to the binding commitments executed as of June 30, 2005.

EPA requires that the program execute binding commitments at least equal to the amount of funds available in the program, within one year of that fund availability. This schedule calculates the amount of funds available as of June 30, 2004, and compares that amount to the binding commitments executed as of June 10, 2005.

### FUNDS AVAILABLE AS OF JUNE 30, 2004:

Total Federal Cap Grants Awarded	Total State Match Contributed	Total Principal Repayments	Total Interest Repayments	Total Investment Interest	(1) Total Early Principal Repayments FY 02 - 04	(2) Total Transfers From Fees Fund FY 02 - 04	TOTAL FUNDS AVAILABLE
251,316,671	50,263,335	110,358,442	57,774,373	20,953,140	10,762,379	3,000,000	479,903,583

### TOTAL BINDING COMMITMENTS AS OF JUNE 21, 2005:

528,019,075

### BINDING COMMITMENTS AS A PERCENTAGE OF FUNDS AVAILABLE FROM 2003:

110.0%

- (1) We have 3 years to commit early principal payments  
(2) We have 3 years to commit the proceeds of this transfer

### Early Principal Repayments, FY 2002 - 2004:

Boardman 16200	2,161 FY 04
Gold Beach 37810	65,392 FY 03
Gresham 39180	630,445 FY 03
Gresham 39181	1,258,879 FY 03
Gresham 39182	976,179 FY 03
Gresham 39183	757,136 FY 03
Gresham 39184	1,543,576 FY 03
Gresham 39185	1,949,811 FY 03
Gresham 39186	3,296,588 FY 03
Hines 44630	2,961 FY 04
RUSA 78860	271,251 FY 03
Waldport 94340	2,700 FY 02
Waldport 94340	5,300 FY 03

10,762,379

## PROGRAM INCOME

Program income is defined to be income earned by the CWSRF that is directly attributable to receipt of federal grant money. In the CWSRF loan program this applies to fees collected on loans originally disbursed from federal grant money. Program income can be collected during a grant period (the time a grant is considered active by EPA), or can be collected after a grant period (since loan repayment generally continues for 20 years). The following schedules show the amount of program income from fees collected during and after grant periods, for each capitalization grant:

1989 Cap Grant

Program Income from Fees, earned during grant period: \$0  
Program Income from Fees, earned after grant period: \$0

1990 Cap Grant

Program Income from Fees, earned during grant period: \$0  
Program Income from Fees, earned after grant period: \$0

1991 Cap Grant

Program Income from Fees, earned during grant period: \$325  
Program Income from Fees, earned after grant period: \$0

1992 Cap Grant

Program Income from Fees, earned during grant period: \$172,107  
Program Income from Fees, earned after grant period: \$167,063

1993 Cap Grant

Program Income from Fees, earned during grant period: \$91,281  
Program Income from Fees, earned after grant period: \$737,258

1994 Cap Grant

Program Income from Fees, earned during grant period: \$56,788  
Program Income from Fees, earned after grant period: \$431,569

1995 Cap Grant

Program Income from Fees, earned during grant period: \$10,154  
Program Income from Fees, earned after grant period: \$426,640

1996 Cap Grant

Program Income from Fees, earned during grant period: \$362,495  
Program Income from Fees, earned after grant period: \$345,964

1997 Cap Grant

Program Income from Fees, earned during grant period: \$164,893  
Program Income from Fees, earned after grant period: \$58,637

1998 Cap Grant

Program Income from Fees, earned during grant period: \$426,040  
Program Income from Fees, earned after grant period: \$52,843

1999 Cap Grant

Program Income from Fees, earned during grant period: \$380,263  
Program Income from Fees, earned after grant period: \$57,571

2000 Cap Grant

Program Income from Fees, earned during grant period: \$417,375  
Program Income from Fees, earned after grant period: \$0

2001 Cap Grant

Program Income from Fees, earned during grant period: \$334,719  
Program Income from Fees, earned after grant period: \$0

2002 Cap Grant

Program Income from Fees, earned during grant period: \$74,647  
Program Income from Fees, earned after grant period: \$0

2003 Cap Grant

Program Income from Fees, earned during grant period: \$33,653  
Program Income from Fees, earned after grant period: \$0

2004 Cap Grant

Program Income from Fees, earned during grant period: \$4,223  
Program Income from Fees, earned after grant period: \$0

2005 Cap Grant

Program Income from Fees, earned during grant period: \$0  
Program Income from Fees, earned after grant period: \$0

## **ACHIEVEMENT OF PROGRAM GOALS**

The long-term and short-term goals identified in the FY 2005 Intended Use Plan are listed below with a discussion of activities related to each.

## Long Term Goals

**Goal #1: To protect public health and the waters of the state by offering financial assistance for water pollution control projects.**

The Oregon Clean Water State Revolving Fund (CWSRF) continues to protect public health and Oregon's waters through its financial assistance program. During FY 2005, the CWSRF program signed 23 new loans with local governments for water pollution abatement projects in the total amount of \$50,891,526. Amendments to 18 existing loans increased project funding by \$1,354,424, bringing total FY 2005 project assistance to \$52,245,950.

The following table shows the amount of new loans and total net loan funding provided in each year of the program (including loan decreases).

Fiscal Year	# of New Loans		\$ in New Loans and Amendments	
	This Year	Cumulative	This Year	Cumulative
1989-1991	4	4	\$7,421,676	\$7,421,676
1992	22	26	22,004,798	29,426,474
1993	25	51	39,393,294	68,819,768
1994	5	56	10,214,683	79,034,451
1995	7	63	3,925,367	82,959,818
1996	12	75	40,017,705	122,977,523
1997	20	95	60,289,058	183,266,581
1998	22	117	89,961,162	273,227,743
1999	9	126	35,445,740	308,673,483
2000	4	130	18,141,807	326,815,290
2001	6	136	15,707,776	342,523,066
2002	8	144	30,152,111	372,675,177
2003	12	156	34,511,307	407,186,484
2004	24	180	68,586,641	475,773,125
2005	23	203	52,245,950	528,019,075

**Goal #2: To provide financial support for water quality improvements to all waters of the State.**



The CWSRF strives to help improve the quality of Oregon's water without regard to geography, size of borrower or type of project (point source, nonpoint source or estuary). During FY 2005 we provided total assistance of \$52,245,950, which can be categorized as follows:

Point Source:	\$46,596,938
Nonpoint Source:	5,649,012
Estuary:	0

Northwest Region:	\$ 9,307,699
Western Region:	30,603,002
Eastern Region:	12,335,249

**Goal #3: To administer the Clean Water State Revolving Fund to ensure its financial integrity, viability and perpetuity as a source of financial assistance.**

Through FY 2005 the Program has not experienced default on any of its loans. This helps to ensure the long term viability of the CWSRF fund. Loan interest rates remain below the market rate to meet the program goal of providing low cost financing.

Investment earnings are at the market rate of interest and are managed by the State Treasurer, as required by Statute. Earnings on cash balances contribute significantly to program growth, adding over \$21.3 million to capital through FY 2005. During FY 2005 investment rates averaged approximately 2.3%, adding \$1.85 million to the fund.

The cash flow model used by the program continues to provide a financially sound tool to maximize the loans made to communities while balancing the different factors that affect the timing of projects and disbursement of funds. We will continue to utilize this tool to ensure all our borrowers will have financial assistance when needed.

The program also continues to receive federal capitalization grants on an annual basis, and the State must provide matching amounts for those grants. Consequently, the Fund continues to grow as a result of the infusion of this new capital each year.

## **Short Term Program Goals**

**Goal #1: To continue to maintain the revolving nature of the Fund and to maintain an active pace of disbursements in conjunction with the receipt of new funds and loan repayments.**

Outstanding loans increased by approximately \$27,200,000 during FY 2005, as loan disbursements outpaced the repayment of loan principal by our borrowers. However, the amount of available cash on deposit with the State Treasurer's Office remains at a high level, and we believe that the program can revolve with an increased amount of loan disbursements while still maintaining its financial integrity. Disbursements during FY 2005 totaled \$40,337,574. We will continue to use our cash flow model to assist in maximizing future financial assistance while maintaining the financial stability of the Fund.

**Goal #2: To provide funding to local communities to the maximum extent possible within the constraints of sound financial management, law and regulation.**

The CWSRF Loan Program provided approximately \$52 million in financial assistance to Oregon communities during FY 2005. This amount includes \$7,651,936 in loan reductions due to communities using less than the original loan amounts to complete their projects. Without considering the loan reductions during FY 2005, total assistance provided (through new loans and loan increases) was \$59,897,886. Total available funding was approximately \$74 Million for the year. We are hopeful that demand for CWSRF loan funds will continue to be strong in coming years.

**Goal #3: To increase the number of loans for both nonpoint source and estuary management projects.**

New administrative rules approved by the Environmental Quality Commission during FY 2003 will make the CWSRF loan program more accessible to those entities trying to complete nonpoint source or estuary projects. Interest rates have been reduced, fees were reduced, the project scoring criteria was modified to make it more equitable for nonpoint source and estuary projects, and a new loan type, the "sponsorship option", was introduced, all to encourage Oregon communities to assist in reducing nonpoint source pollution. During FY 2005 there were three nonpoint source project loans executed, totaling \$5,649,012.

**Goal #4: To make the CWSRF loan program more accessible to a wider range of water quality projects statewide.**

The rule changes described under Goal #3 above were designed to help accomplish this objective. Also, CWSRF staff actively discuss our program with public agencies around the State, to promote the use of program funds for a variety of projects. The success of these efforts is apparent, as evidenced by the variety of projects funded during FY 2005, as noted below:

East Fork Irrigation District: \$1,500,000 to continue work on its project to remove irrigation water from open canals and transport it through pipes.

Farmers Irrigation District: \$3,000,000 to continue work on a project to install piping to transport irrigation water to its customers.

City of Portland: \$1,149,012 to provide funding for the City's purchase of land in flood prone areas of Johnson Creek.

**Goal #5: To continue our participation with other state and federal programs in providing financial assistance to Oregon communities.**

DEQ continues to work with other State agencies, in particular the Economic and Community Development Department (OECD), as well as the federal Rural Utilities Service (RUS) to educate Oregon communities about the CWSRF Loan Program and its availability for finance of wastewater-related projects. A key component of this cooperation between the agencies is the One Stop Meetings, which allow local communities to meet with various State and Federal financing organizations to learn about the financing options that may be available for their projects. Our program intends to continue this partnership through FY 2006 and beyond.

## **LOAN PORTFOLIO AND ACTIVITIES**

### **PROJECT SELECTION PROCEDURES**

Letters of information and solicitation (in both paper and electronic form) are sent to all cities, service districts, and sanitary districts in the state annually. Any resulting completed applications are ranked and placed on the Priority List, based upon criteria in DEQ administrative rules.

As applications are received, they are funded in rank order if funds are available. When there are not enough funds for all of the projects that are ready to proceed, allocations of new funds are made on a competitive basis. The cash flow model is updated with the projected schedules for new loans to be sure that cash will be available when needed. During 2005 there were sufficient funds available to accommodate all requests for loans, so all applications for funds received either new loans or increases to existing loans.

The available funds are calculated annually in the Intended Use Plan considering all of the cash flow anticipated for the funding period. The maximum funding for any single borrower is calculated at 15% of the available funds (the maximum may be exceeded when no other requests for increases or unfunded applications are on hand). Reserve amounts are calculated as follows:

- (1) Small Community Reserve: 15% of available funds for communities with populations of 5,000 or less.
- (2) Facilities Planning Reserve: the lesser of 10% of available funds or the total of all preliminary applications for facilities planning loans.
- (3) Expedited Loans Reserve: \$2,000,000, although this amount may be increased at the Department's discretion.

Increases for existing loans are funded first. After increases, applicable projects are funded from the reserves for Small Communities, Facilities Planning and Expedited Loans. The balance of available funds is used to finance all other projects that have completed applications in Priority List order. When the reserve funds have been depleted, Small Community, Facilities Planning and Expedited projects compete with all other projects for funding.

If more funds become available during the year based on the cash flow model, over and above the original available funds calculation, additional increases and new loans are funded in priority order.

## PROJECT PRIORITY LIST CRITERIA

Projects are prioritized according to criteria set out in Oregon Administrative Rule. The citation for this portion of the rule is OAR 340-54-025, which is shown below.

### **Category 1:** Proposed Project's anticipated benefit for water quality or public health

**1A**--(0 or 8 points)--Project addresses water quality or public health issue within a "special status" water body

**1B**--(0-6 points)--Project addresses noncompliance with water quality standards, a public health issue or effluent limits related to surface waters

**1C**--(0-6 points)--Project addresses noncompliance with water quality standards or a public health issue related to groundwater

**1D**--(0-12 points)--Project ensures that a source already in compliance maintains that compliance.

**1E**--(0-8 points)--Project improves or sustains aquatic habitat supporting state or federally threatened or endangered species

**1F**--(0-12 points)--Project incorporates wastewater reuse or a water quality-related conservation process

**1G**--(0-7 points)--Project improves water quality by mitigating any of the following pollutants: temperature, dissolved oxygen, contaminated sediments, toxics on the EPA Priority Pollutants List, bacteria or nutrients

**1H**--(0-5 points)--Project supports the implementation of a Total Maximum Daily Load (TMDL) allocation or action plan for a Ground Water Management Area

**1I**--(0-6 points)--Project addresses a water quality or public health issue involving "Persistent Bioaccumulative Toxics" (PBT's)

### **Category 2:** Potential water quality or public health consequences of not funding the proposed project

**2A**--(0-5 points)--If the proposed project is not implemented, water quality standards are likely to be exceeded or existing exceedances are likely to worsen

**2B**--(0-5 points)--If the proposed project is not implemented, the resulting impact is likely to cause a public health problem

**2C**--(0-5 points)--A unique opportunity to implement the proposed project currently exists due to timing, finances or other limitations that would not allow this project to be implemented in the future

**Category 3: Other considerations**

**3A--(0-3 points)--**Project has significant educational or outreach component

**3B--(0-3 points)--**Project demonstrates innovative technology which is transferable

**3C--(0-3 points)--**Project is a partnership with other group(s), incorporating self-help, financial or in-kind support

**3D--(0-5 points)--**Project incorporates monitoring, reporting or adaptive management

**3E--(0 or 1 point)--**Project addresses or includes risk management, safety or security measures

**3F--(0-minus 5 points)--**Applicant's past performance with previous Department loans or grants such as, but not limited to, failure to satisfy match requirements of a grant, failure to complete the project or failure to submit any other required deliverable in a timely manner.

## **PROJECT INFORMATION**

During FY 2005 16 projects, totaling \$43,102,094, were started and 12 projects, totaling \$25,014,778, were completed. During the same period there were 13 projects that required either an environmental review or received a categorical exclusion from such review. Four of those projects received categorical exclusions, five were required to complete environmental reviews, and four were required to complete a more extensive environmental assessment.

## **OTHER PROGRAM REQUIREMENTS**

### **ENVIRONMENTAL REVIEW**

Environmental review was completed on all Title II Equivalency projects. On these projects, DEQ reviewed all requests for categorical exclusions, environmental assessments and environmental impact statements submitted by CWSRF borrowers according to the requirements of the National Environmental Policy Act. After incorporation of any DEQ review comments, public comments were solicited through notices published in one statewide and one local newspaper of general circulation. Notices were also mailed directly to other state and federal agencies, and other interested parties.

In October 1999 the State's proposed Alternative Environmental Review Process was sent out for public review. In November 1999 the Procedures Manual, which includes the environmental review process, was submitted to EPA for approval. EPA granted its approval of this document on November 17, 1999. The Procedures Manual is available on DEQ's web site, at the CWSRF Loan Program page: <http://www.deq.state.or.us/wq/wqgrant/wqgrant.htm>.

Environmental review of all projects signing loans after June 1997 has been consistent with this process. The core of the State Environmental Review Process (SERP) is the state's land use planning process. Additional requirements are addressed individually and through the facilities planning review process.

## **APPLICABLE FEDERAL AUTHORITIES AND LAWS**

All State Revolving Fund projects receiving federal funds are required to comply with federal laws and authorities, as identified in the Initial Guidance of January 1988. Specific language agreeing to comply and a list of "cross-cutter" requirements is included in each loan agreement. Compliance is reviewed by each project officer. When all federal funds have been drawn and disbursed by the program, most of the federal "cross-cutter" requirements will be dropped from new loan agreements. In many cases, state laws provide similar requirements.

At the end of each fiscal year, all borrowers receiving disbursements during the year are sent a statement showing the funding sources of the disbursements. Compliance with the Single Audit Act and OMB Circular A-133 in the annual audit of the Borrower's financial statements is required if "first round" federal funds are "passed through" in loan disbursements. Our borrowers are considered to be Sub-Recipients for purposes of Circular A-133.

## **PUBLIC INVOLVEMENT**

Public involvement is provided during development of the Intended Use Plan. Notices are sent to all Oregon jurisdictions, sanitary districts, and many engineering consultants of the opportunity to submit applications. All public agencies that submit CWSRF applications are sent excerpts of the draft Intended Use Plan, including the Priority List showing the project rankings. A public notice is published in the Daily Journal of Commerce and Business Journal notifying the general public of the document's availability for review. The complete draft Intended Use Plan is provided upon request. Public comments on the draft Project Priority List and Intended Use Plan are accepted and responded to during a thirty-day public review period, with revisions made as appropriate.

## **COMPLIANCE WITH TITLE II EQUIVALENCY REQUIREMENTS**

### **1. Introduction**

Title VI of the Clean Water Act requires the CWSRF loan program to comply with certain specific requirements of Title II of the Clean Water Act, commonly known as the "Equivalency Requirements". DEQ must disburse funds to borrowers who are required to comply with these requirements. The amount of these disbursements must be equal to or greater than the amount of CWSRF projects constructed in whole or in part prior to October 1, 1994. The Equivalency Requirements include the following specific provisions:

- Best Practicable Waste Treatment Technology. Section 201(b) requires that projects apply best practicable waste treatment technology.
- Governor's Discretionary Set-Aside. Section 201(g)(1) limits assistance to projects for secondary treatment, advanced treatment, or any cost-effective alternative; new interceptors and appurtenances; and infiltration-inflow correction. This section retains the Governor's discretionary set-aside by which a State can use up to 20 percent of its allotment for other projects within the definition of treatment works in section 212(2), and for certain nonpoint source control and groundwater protection purposes, as defined in section 319 of the Act.
- Alternative Technologies. Section 201(g)(2) requires that alternative technologies be considered in project design.
- Excessive Infiltration. Section 201(g)(3) requires the applicant to show that the related sewer collection system is not subject to excessive infiltration.
- Energy and Resource Conservation. Section 201(g)(5) requires that applicants study innovative and alternative treatment technologies and take into account opportunities to construct revenue producing facilities and to make more efficient uses of energy and resources.
- Recreation and Open Space Opportunities. Section 201(g)(6) requires that the applicant analyze the potential recreation and open space opportunities in the planning of the proposed facility.
- Combined Sewer Overflows. Section 201(n)(1) provides that funds under section 205 may be used for water quality problems due to discharges of combined sewer overflows, which are not otherwise eligible, if such discharges are a major priority in a State.
- Capital Financing Assistance. Section 201(o) calls on the Administrator to encourage and assist communities in the development of capital financing plans.
- Area-Wide and State-Wide Plans. Sections 204(a)(1) and (2) require that treatment works projects be included in plans developed under sections 208 and 303(e).
- User Charge Systems. Section 204(b)(1) requires communities to develop user charge systems and to have the legal, institutional, managerial, and financial capability to construct, operate, and maintain the treatment works.
- Project Certification. Section 204(d)(2) requires that, one year after the date of completion of construction and initiation of operation, the owner/operator of the treatment works must certify that the facility meets design specifications and effluent limitations included in its permit.
- Collector Sewers. Section 211 provides that major rehabilitation or replacement of collectors is not eligible, under the Governor's 20 percent discretionary authority of 201(g)(1), unless the collector is needed to assure the total integrity of the treatment works or that for a new collector, adequate capacity exists at the facility.
- Cost-Effective Systems. Section 218 assures that treatment systems are cost-effective and requires that projects of over \$10 million include a value-engineering review.
- National Environmental Policy Act. Section 511(c)(1) applies the Environmental Impact Statement requirement of the National Environmental Policy Act to projects receiving Title II grants.
- Prevailing Wage Rates. Section 513 applies Davis-Bacon labor wage provisions to treatment works construction. Wages paid for the construction of treatment works must conform to the



prevailing wage rates established for the locality by the U.S. Department of Labor under the Davis-Bacon Act.

## **2. General Information**

To meet the equivalency requirements, the state must disburse a certain amount of the State Revolving Fund for projects that qualify as Title II Equivalency Projects. Any project can qualify as an "equivalency project" by meeting the sixteen specific statutory requirements provided in Section 602(b)(6) of the Clean Water Act (listed above) if they are Section 201(g)(1) projects. These include secondary treatment, advanced treatment, or any cost-effective alternative, new interceptors and appurtenances, and infiltration-inflow correction. Projects meeting this Section 201(g)(1) requirement are listed as "standard" equivalency projects in this report.

In addition, up to 20% of the equivalency requirement may be met with construction projects as defined by Sections 212(2), including collector sewer systems and sewer separation projects to correct Combined Sewer Overflows. Projects qualifying under this 20% Governor's Discretionary Fund are identified as "Collector/CSO" Projects in this Report. An exception was granted to the 20% limitation on collector sewer systems and sewer separation projects for the 1990 and 1991 capitalization grants. Oregon has had a significant need for funding of collector systems in areas of threatened drinking water and has allocated funds at the maximum amount in most years.

## **3. Calculation of Oregon Equivalency Requirement**

**The tables and schedules below were prepared as of June 30, 2003 and are unchanged for 2005. EPA is still reviewing the Equivalency requirements and Oregon's documentation of compliance with those requirements, which may result in new calculations. The reader should be aware that Oregon has not been officially released from the Equivalency requirements, although we believe we have indeed satisfied them.**

The table below shows the cumulative parameters and the resulting weighted average of Collector/CSO projects that may be used to meet the equivalency requirements based upon the capitalization grant awards. This table is used solely for the purpose of calculating the parameters, and not the total amount of the equivalency requirement.

**Table 1: Parameters based on Cap Grant Awards as of 9/30/94**

	<b>Minimum Standard Projects</b>	<b>Maximum Collector/CSO Projects</b>	<b>Total Equivalency Requirement</b>
1989	8,524,058	2,131,015	10,655,073
1990	0	11,021,373	11,021,373
1991	0	23,183,622	23,183,622
1992	17,559,353	4,389,838	21,949,191
1993	17,370,065	4,342,516	21,712,581
1994	10,777,932	2,694,483	13,472,415
<b>Total</b>	<b>\$ 54,231,408</b>	<b>\$ 47,762,847</b>	<b>\$ 101,994,255</b>
<b>Parameters</b>	<b>&gt; 53.17%</b>	<b>&lt; 46.83%</b>	

The actual amount of the equivalency requirement is calculated by adding the loan amounts for those loans for which construction was started prior to 10/01/1994, or the loan was signed prior to 10/01/1994, including facilities planning loans executed prior to that date for which the resulting construction used CWSRF funds. Below is a list of all CWSRF loans that are included in the base for calculating the equivalency requirement. These can only be projects that actually received federal capitalization grant assistance to complete their projects, however these projects did not have to be funded exclusively by federal funds to be included in the base.

**Table 2: Base Equivalency Projects**

<b>Borrower</b>	<b>Loan No.</b>	<b>Description</b>	<b>Loan Amount</b>
Albany	R10510	Res.Cap./Collector Sewers	5,202,059
Arlington	R11490	Sludge Drying Beds	25,000
Bandon	R12910	Facilities Plan	71,607
Bandon	R12911	Reserve Capacity; Sludge	1,500,000
Bandon	R12912	Reserve Capacity; Sludge	1,500,000
Carlton	R20880	Reserve Capacity	235,900
Clackamas County	R22400	Facilities Plan	663,381
Condon	R23720	Facilities Plan	40,000
Coquille	R24290	Facilities Plan	52,647
Coquille	R24291	Inflow/Infiltration	1,384,953
Corvallis	R24480	Inflow/Infiltration	700,000
Dallas	R26110	Facilities Plan	380,000
Dufur	R29520	Interceptor Replacement	45,318
Eagle Point	R30020	Facilities Plan	65,000
Eugene	R31790	Collector Sewers	1,917,776
Eugene	R31791	Collector Sewers	2,086,526
Eugene	R31792	Collector Sewers	2,086,526
Eugene	R31793	Collector Sewers	3,154,000
Eugene	R31794	Collector Sewers	3,699,572
Eugene	R31795	Collector Sewers	3,975,340

Borrower	Loan No.	Description	Loan Amount
Gold Beach	R37810	Collector Sewers	137,669
Gresham	R39180	Collector Sewers	1,383,200
Gresham	R39181	Collector Sewers	2,221,789
Gresham	R39182	Collector Sewers	1,637,795
Gresham	R39184	Collector Sewers	2,320,340
Gresham	R39185	Collector Sewers	2,492,741
Harrisburg	R41900	STP Improvements	410,000
Independence	R47600	Facilities Plan	30,000
Monroe	R66280	Chlorine Contact Chamber	28,320
Mt. Angel	R67210	Sewage Treatment Plant	583,042
Ontario	R70610	STP Improvements	9,807,366
Oregon City	R70650	Collector Sewers	3,164,162
Oregon City	R70651	Sewer Separation	914,907
Portland	R74160	Collector Sewers	4,063,700
Portland	R74161	Collector Sewers	1,917,776
Portland	R74162	Collector Sewers	8,123,906
Prineville	R74680	Sewage Treatment Plant	2,267,286
Rockaway Beach	R78280	Pump Station Rehab	55,627
St. Helens	R80160	Sewer Separation	1,200,000
Sheridan	R83810	System Improvements	390,000
Siletz	R84460	Sewage Treatment Plant	580,000
Springfield	R86770	Interceptor	1,075,000
Vale	R93220	Facilities Plan	85,000
Vernonia	R93640	STP Improvements	121,978
Waldport	R94340	Collector Sewers	276,697
Woodburn	R98410	Facilities Plan	380,000
<b>Total</b>			<b>\$ 74,453,906</b>

Applying the percentage parameters from Table 1, "Parameters based on Cap Grant Awards as of 9/30/94," to limit the eligible collector/CSO projects results in the following equivalency requirement parameters for the state of Oregon.

**Table 3: Oregon Equivalency Requirement Parameters**

<b>Minimum "Standard" Projects</b>	\$ 74,453,906	x 53.17% =	<b>\$ 39,587,142</b>
<b>Maximum Collector/CSO Projects</b>	\$ 74,453,906	x 46.83% =	<b>\$ 34,866,764</b>
<b>Total Equivalency Requirement</b>			<b>\$ 74,453,906</b>

#### 4. Meeting the Requirement with Equivalency Compliance Projects

In order to be released from Title II requirements as soon as possible, Oregon imposed equivalency requirements on all projects (except for one "small, simple project") from the inception of the program until about July 1996, whether funded with federal or state funds. Each CWSRF loan agreement includes language requiring the borrower to comply with the sixteen Title II requirements of the CWSRF program as well as federal "cross-cutting" requirements. The

loan agreement also includes lists of each of these. Compliance with the Title II and "cross-cutting" requirements is monitored by project officers and project engineers. The table below shows the disbursements qualifying for credit toward the equivalency requirements.

**Table 4: Equivalency Project Disbursements as of 6/30/2003**

Borrower	Loan No.	Project Description	DISBURSEMENTS	
			Standard Projects	Collector/CSO Projects
Albany	R10510	Res.Cap./Collector Sewers	888,541	4,313,518
Arlington	R11490	Sludge Drying Beds	25,000	
Aurora	R11860	Facility Plan	84,018	
Bandon	R12910	Facility Plan	71,607	
Bandon	R12912	Reserve Capacity; Sludge	1,500,000	
Canby	R20520	Facility Plan	127,700	
Carlton	R20880	Reserve Capacity	235,900	
Cascade Locks	R21310	Facility Plan	40,000	
Clackamas Co.	R22400	Facility Plan	663,381	
Clackamas Co.	R22401	Ultra-Violet Disinfection	2,914,744	
Condon	R23720	Facility Plan	40,000	
Condon	R23721	Sewage Treatment Plant	275,000	
Coquille	R24290	Facility Plan	52,647	
Coquille	R24291	Inflow/Infiltration	1,384,953	
Corvallis	R24480	Inflow/Infiltration	700,000	
Dallas	R26110	Facility Plan	380,000	
Dallas	R26111	Plant & Disposal Improvement	14,500,000	
Dayville	R26760	Facility Plan	19,502	
Dufur	R29520	Interceptor Replacement	Not equiv.	
Eagle Point	R30020	Facility Plan	65,000	
Eagle Point	R30021	Sewage Transport System	1,800,000	
Eugene	R31790	Collector Sewers		1,917,776
Eugene	R31791	Collector Sewers		2,086,526
Eugene	R31792	Collector Sewers		2,086,526
Eugene	R31793	Collector Sewers		3,154,000
Eugene	R31794	Collector Sewers		3,699,572
Eugene	R31795	Collector Sewers		3,975,340
Eugene	R31796	Collector Sewers		3,710,508
Gold Beach	R37810	Collector Sewers		137,669
Gresham	R39180	Collector Sewers		1,383,200
Gresham	R39181	Collector Sewers		2,221,789
Gresham	R39182	Collector Sewers		1,637,795
Gresham	R39183	Collector Sewers		1,218,390
Gresham	R39184	Collector Sewers		2,320,340
Gresham	R39185	Collector Sewers		2,492,741
Gresham	R39186	Collector Sewers		3,779,995
Harrisburg	R41900	STP Improvements	410,000	
Independence	R47600	Facility Plan	30,000	
Joseph	R49800	Facility Plan	60,501	
Klamath Falls	R52600	Facility Plan	128,713	

Borrower	Loan No.	Project Description	DISBURSEMENTS	
			Standard Projects	Collector/CSO Projects
Monroe	R66280	Chlorine Contact Chamber	28,320	
Mt. Angel	R67210	Sewage Treatment Plant	583,042	
Neskowin	R68650	Treatment Plant/Collectors	967,359	
Ontario	R70610	STP Improvements	9,807,366	
Ontario	R70611	STP Improvements	1,435,937	
Oregon City	R70651	Sewer Separation	914,907	
Portland	R74160	Collector Sewers		4,063,700
Portland	R74161	Collector Sewers		1,917,776
Portland	R74162	Collector Sewers		8,123,906
Prineville	R74680	Sewage Treatment Plant	2,267,286	
Redwood S.D.	R76080	Sewage Plant Expansion	5,679,567	
Rockaway	R78280	Pump Station Rehab	55,627	
Rogue River	R78490	Facility Plan	79,300	
Sandy	R80490	Facility Plan	190,498	
Sheridan	R83810	System Improvements	390,000	
Siletz	R84460	Sewage Treatment Plant	580,000	
Springfield	R86770	Sewer Separation	1,075,000	
Tillamook Bay	R91560	Facility Plan	55,730	
Toledo	R91800	Facility Plan	49,646	
Tri-City S.D.	R92261	Facility Plan	184,596	
Tri-City S.D.	R92262	Alternative Disinfection	756,352	
Vale	R93220	Facility Plan	85,000	
Waldport	R94340	Collector Sewers		276,697
Woodburn	R98410	Facility Plan	380,000	
Yamhill	R99110	Facility Plan	34,000	
<b>Totals</b>			<b>51,996,740</b>	<b>54,517,764</b>

## 5. Conclusion

### *Compliance with Equivalency Requirements as of 6/30/2003*

		Requirement	Qualifying Disbursements
<b>Standard Projects</b>	>	<b>\$ 39,587,142</b>	<b>\$ 51,996,740</b>
<b>Collector/CSO</b>	<	<b>\$ 34,866,764</b>	<b>\$ 34,866,764</b>
<b>Totals</b>	>	<b>\$ 74,453,906</b>	<b>\$ 86,863,504</b>

Subsequent to June 30, 2005 Oregon has learned from EPA that the equivalency requirements have been met and Oregon is no longer responsible for requiring any CWSRF loan recipients to comply with these requirements.